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Construction of Defense Department Contracts in Thin Markets

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Contract Construction



THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

March 4, 2009

Memorandum for the Heads of Executive Departments and Agencies

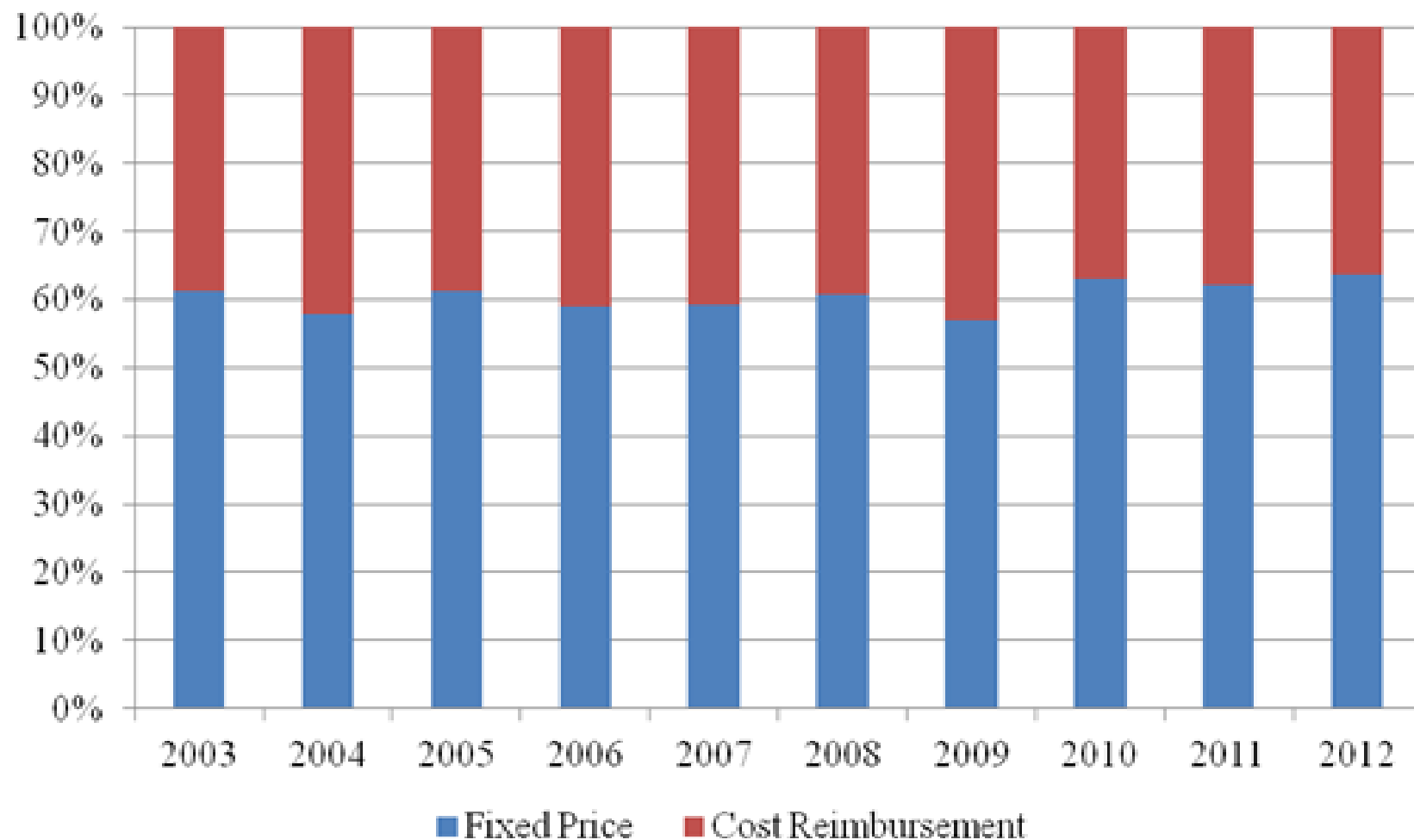
Subject: Government Contracting

The Federal Government has an overriding obligation to American taxpayers. It should perform its functions efficiently and effectively while ensuring that its actions result in the best value for the taxpayers.

Since 2001, spending on Government contracts has more than doubled, reaching over \$500 billion in 2008. During this same period, there has been a significant increase in the dollars awarded without full and open competition and an increase in the dollars obligated through cost-reimbursement contracts. Between fiscal years 2000 and 2008, for example, dollars obligated under cost-reimbursement contracts nearly doubled, from \$71 billion in 2000 to \$135 billion in 2008. Reversing these trends away from full and open competition and toward cost-reimbursement contracts could result in savings of billions of dollars each year for the American taxpayer.

Excessive reliance by executive agencies on sole-source contracts (or contracts with a limited number of sources) and cost-reimbursement contracts creates a risk that taxpayer funds will be spent on contracts that are wasteful, inefficient, subject to misuse, or otherwise not well designed to serve the needs of the Federal Government or the interests of the American taxpayer. Reports by agency Inspectors General, the Government Accountability Office (GAO), and other independent reviewing bodies have shown that noncompetitive and cost-reimbursement contracts have been misused, resulting in wasted taxpayer resources, poor contractor performance, and inadequate accountability for results.

Fixed Price vs. Cost Reimbursement Contracts FY 2003-2012 (FPDS)



Roadmap

**Contract Construction and Product
Characteristics**

Methods and Data

Results

Next Steps/Paper Preview



Contract Construction and Product Characteristics



Contract Construction



**Fixed
Price**

**Cost
Reimbursement**

Products



Simple
Products



Complex
Products

Contract/Product Alignment



**Simple
Product**



**Fixed
Price**



**Complex
Product**



**Cost
Reimbursement**

Methods and Data



2004-2008

Methods and Data Products

Advertising

Aircraft, Fixed Wing

Auditing

Bombs

Court Reporting

Custodial Janitorial Services

Defense Aircraft-Adv. Dev.

Defense Aircraft-Applied R&D

Defense Aircraft-Basic Research

Defense Aircraft-Engineering Dev.

Engineering & Technical Services

Guard Services

Guided Missiles

Guns (30MM and less)

Laundry & Dry-Cleaning

Legal Service

Logistics Support

Maintenance & Equipment Repair

Program Management Services

Program Review/Development

Submarines

Systems Development Services

Training/Curriculum

Development

Trash/Garbage Collection

Warehousing & Storage

Weapons – Adv. Dev.

Weapons – Applied R&D

Weapons – Basic Research

Methods and Data

Product Characteristics



Specification
Difficulty



Specialized
Investments

Results



Figure 1. Products by Ease of Measurement and Specialized Investment

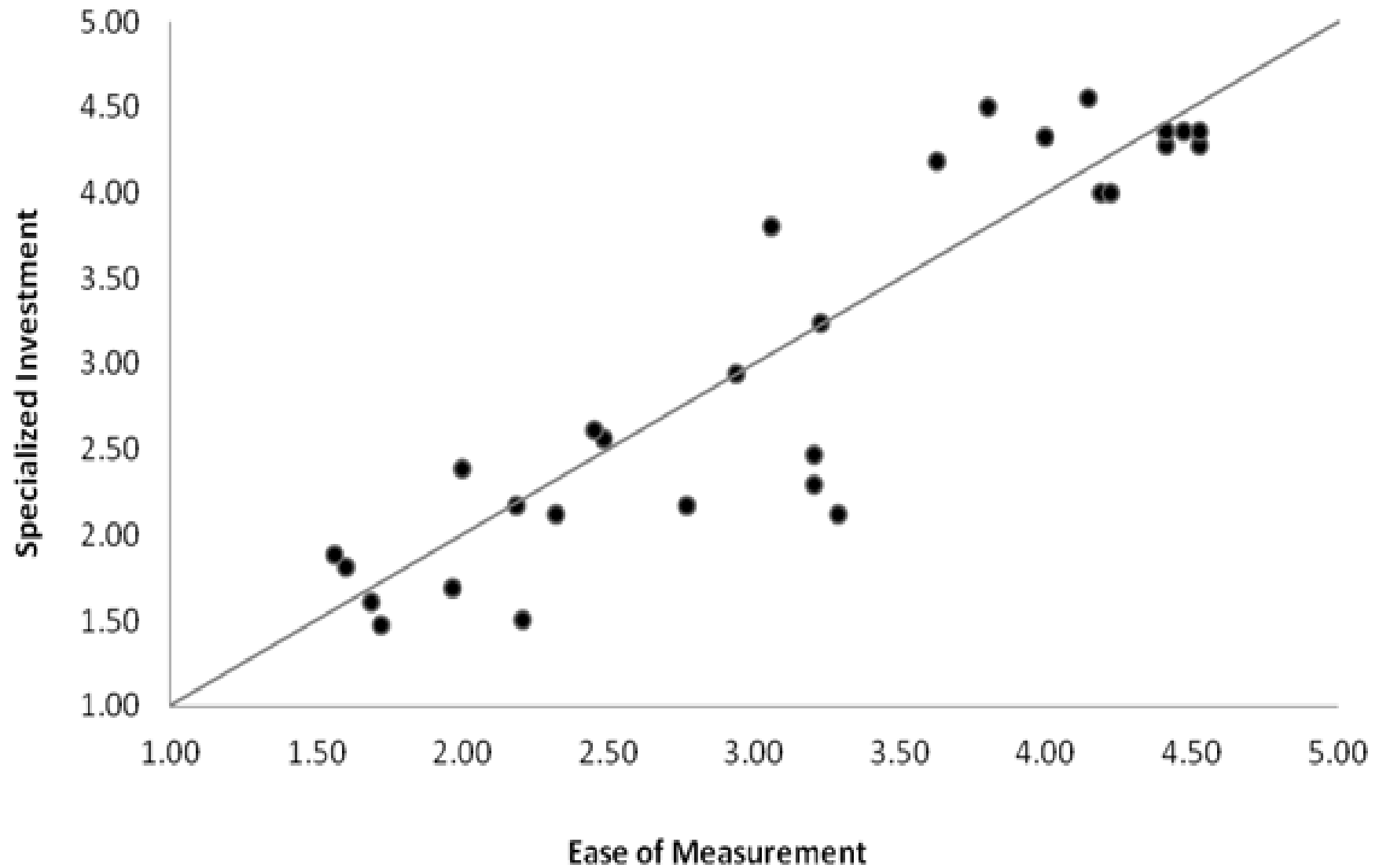


Figure 2. Use of Cost-Reimbursement Contracts by Mean Product Rating

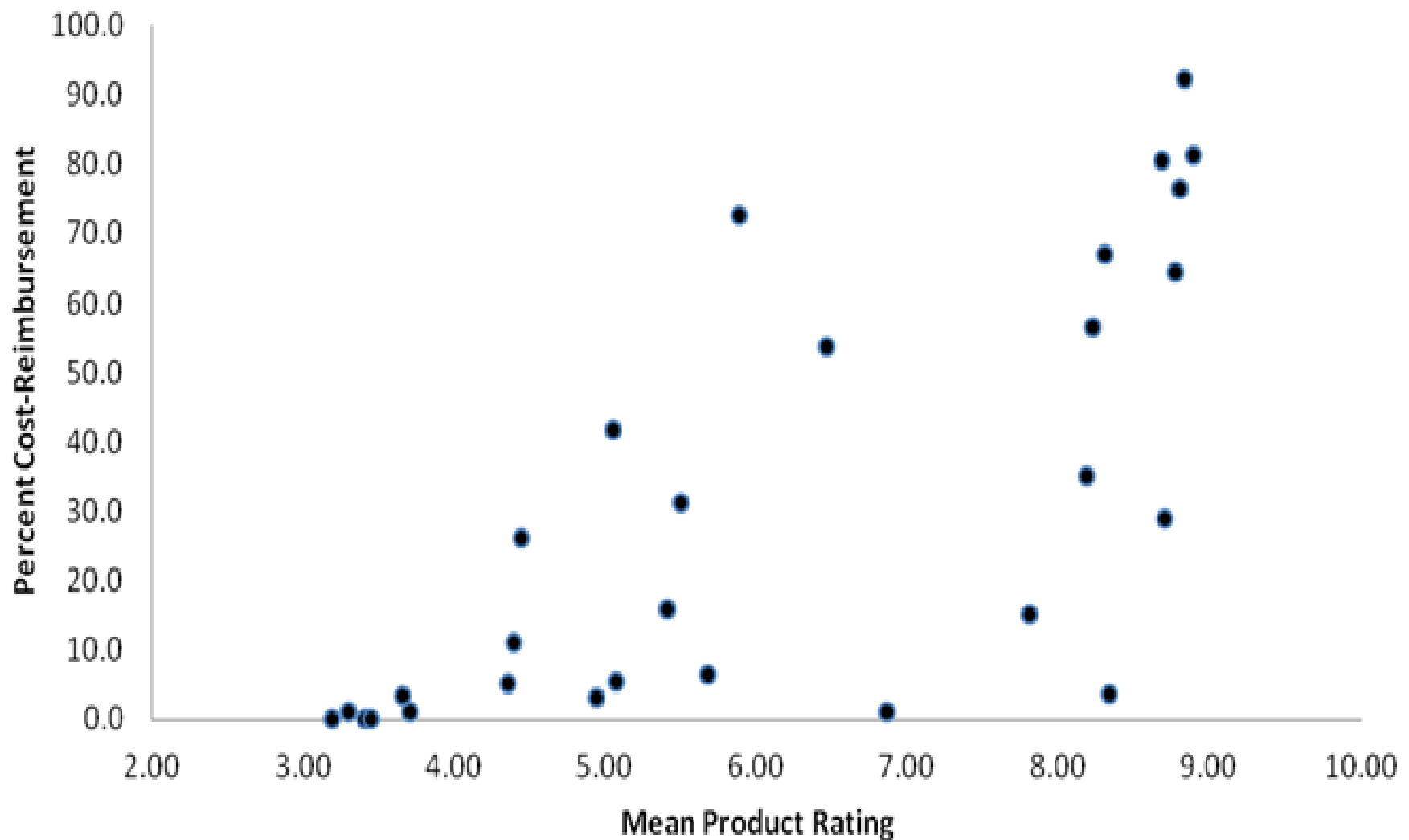


Figure 3. Average Contract Length in Days by Product Type, 2004-2008

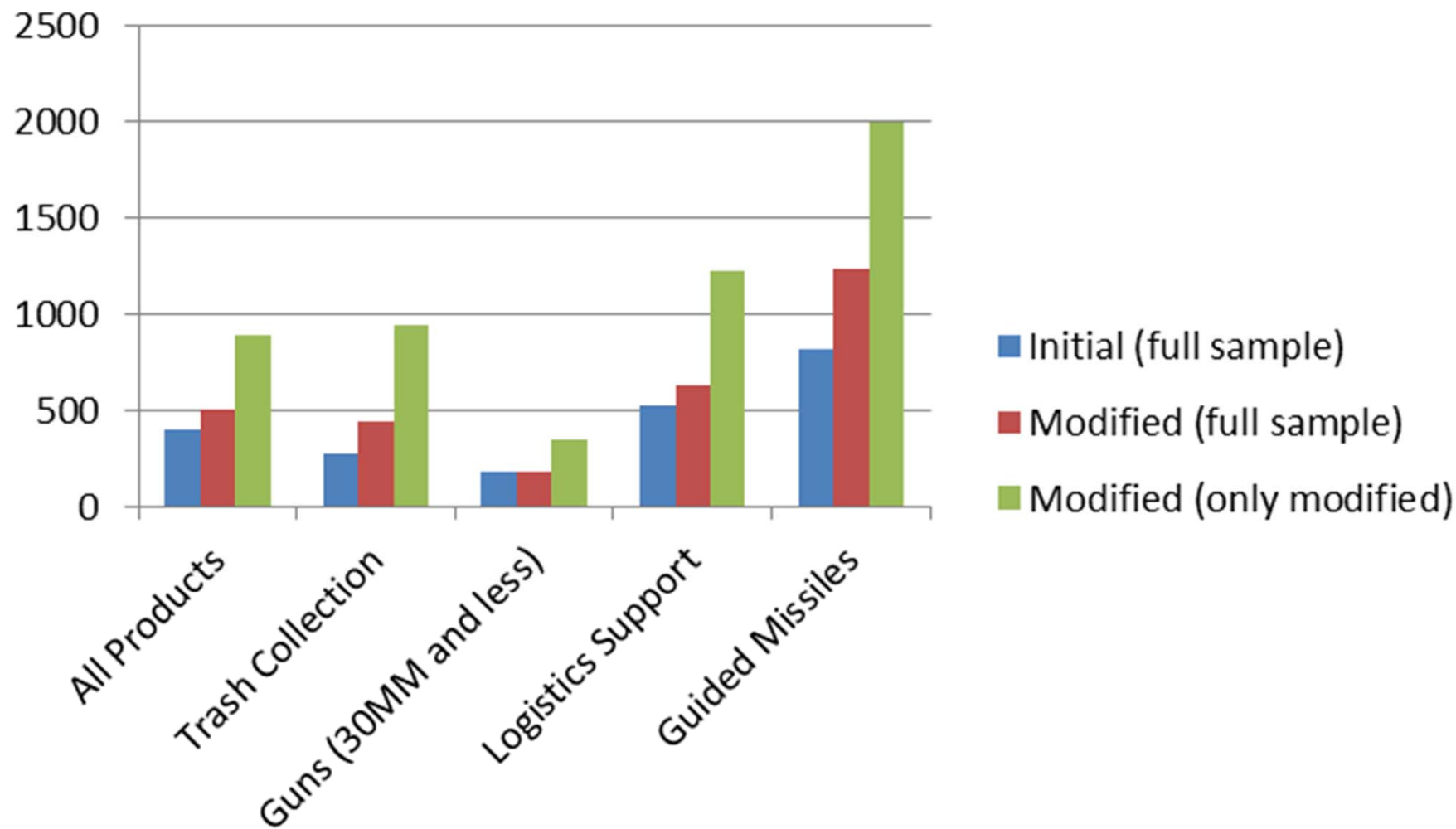


Figure 4. Average Contract Value in Dollars, All Products, 2004-2008

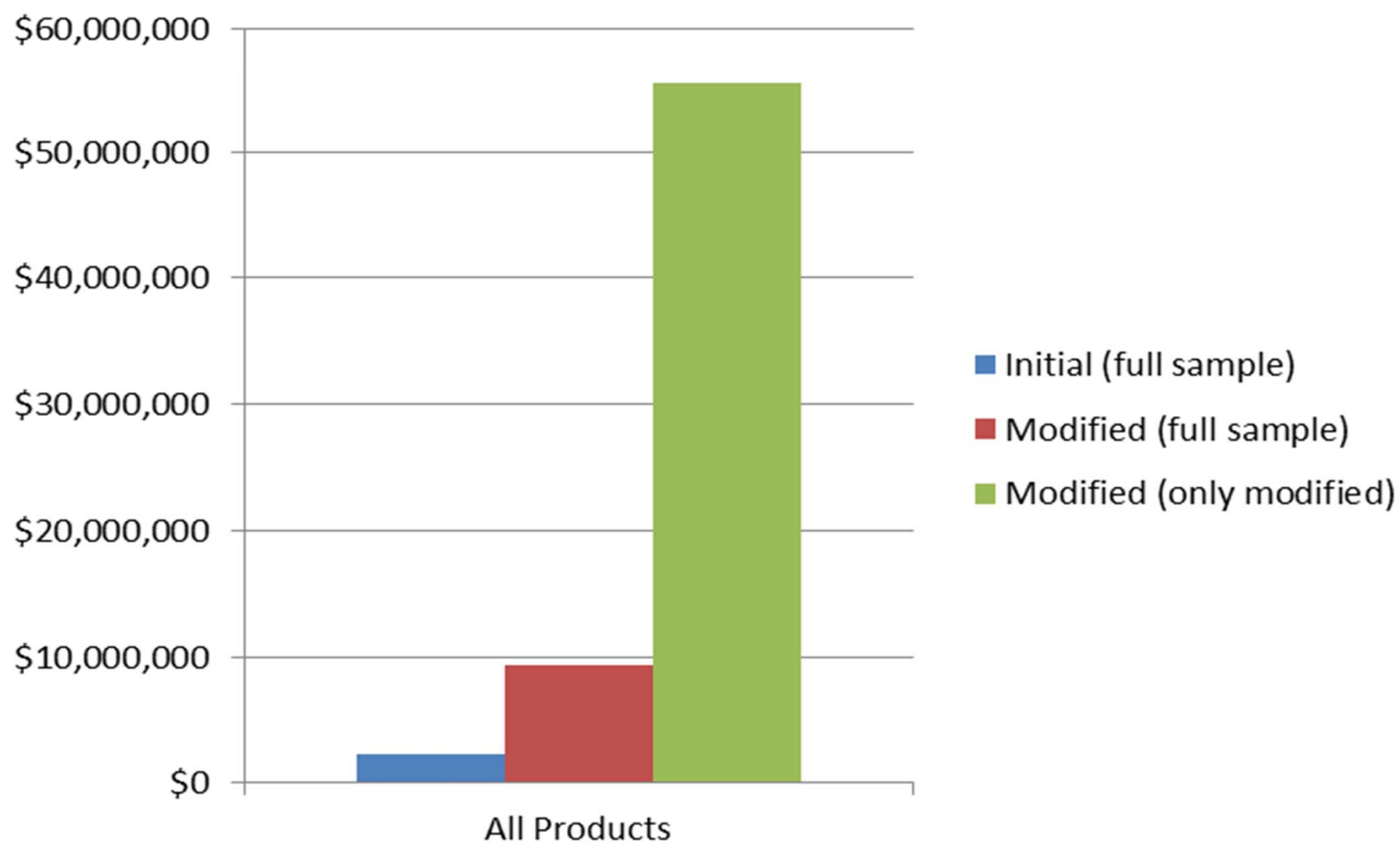


Figure 5. Average Contract Value in Dollars, Trash Collection, Guns, and Logistics, 2004-2008

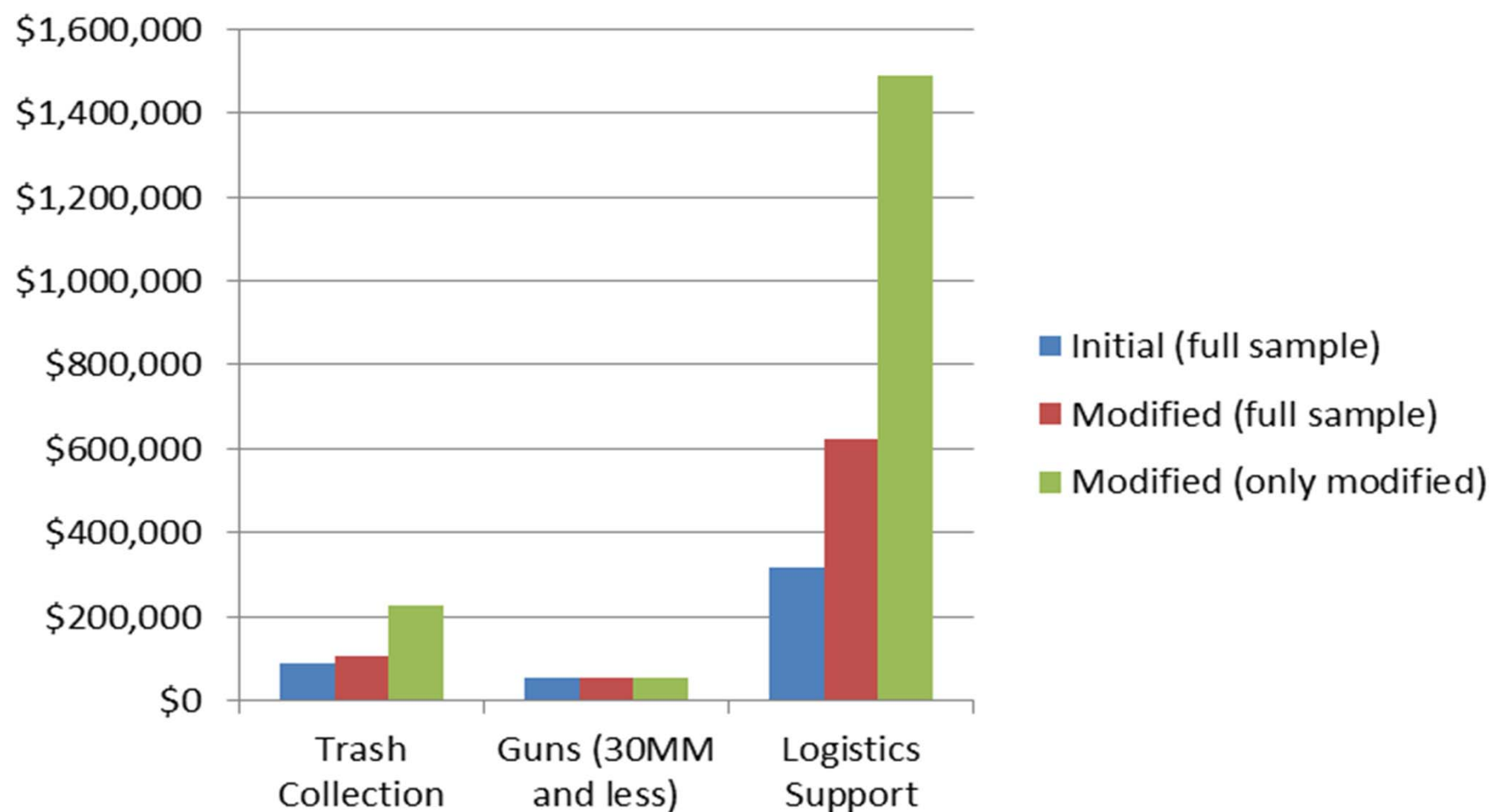
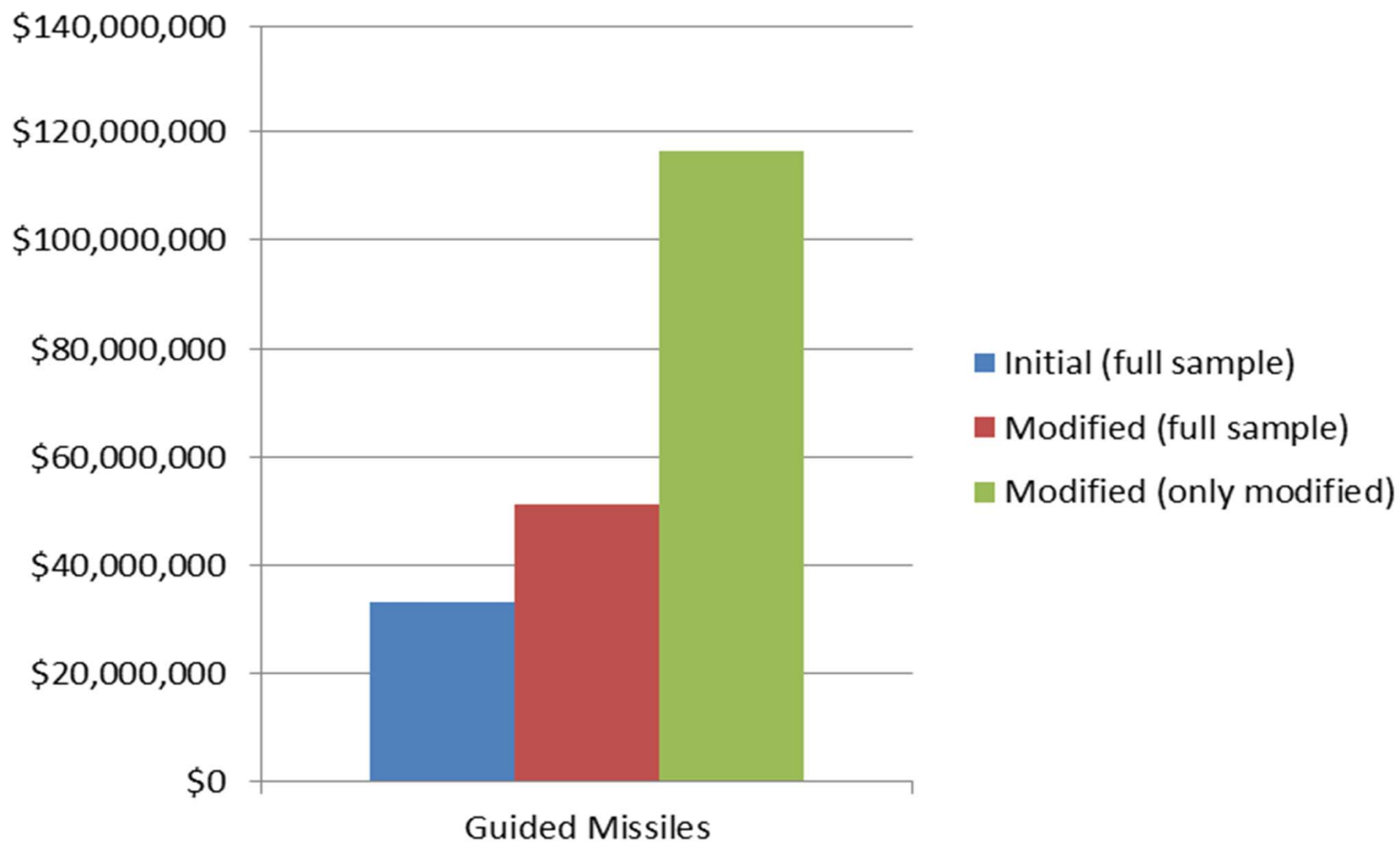


Figure 6. Average Contract Value in Dollars, Guided Missiles, 2004-2008



Next Steps/Paper Preview

Market Characteristics

Firm Characteristics

Contract Outputs

